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MEMORANDUM

SUBJECT: US Post-War Aid to France

THE PICTURE IN BRIEF

France has received more US aid since World War II than any other single country.

The total figure comes to nearly 10 billion dollars-- over 5 billion dollars in economic aid, over 4 billion in military.

This aid was given on exceptionally generous terms. Some four-fifths of it was disbursed as grants, only one-fifth extended as loans.

IMMEDIATE POST-WAR AID

When the war ended, France's economy was badly shattered, and the need for capital investments (e.g., new rolling stock) was urgent. This meant heavy imports, particularly since bad harvests followed in the wake of the war; the balance-of-payments deficits of the French Union reached staggering proportions (two billion dollars in 1946 and again in 1947).

We estimate that the US financed more than half of the deficit during this period before the Marshall Plan was inaugurated. Close to \$2 billion was provided through emergency loans (Bum-Byrnes agreement, two Export-Import loans, and loan from Maritime Commission).

France utilized about a third of all the merchant-ship and other surplus-property credits provided abroad by the US Government.

THE TERRIBLE YEAR

The French call the period from mid-1947 to mid-1948 "The Terrible Year." A bad harvest, runaway inflation, a



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succession of Communist-instigated strikes all contributed to a sense of mounting catastrophe. Conscripts were called up as the strikes grew more and more violent. The Minister of the Interior was actually mapping plans for the defense of Paris against a Communist attack from the south when the Marshall Plan agreement was signed.

Clearly what stemmed the tide was the prospect of Marshall Plan assistance. Its first effect was to encourage the non-Communist workers that there was a salvation beyond revolution. They left the Communist-controlled labor movement. The second major effect was on the government itself. With renewed assurance, it decided to stick with the Monnet Plan for industrial investment, confident that US help in financing was forthcoming.

By mid-1948 stability was returning to France. The Communists tried one more massive assault of strikes in the fall; significantly the Marshall Plan was a principal propaganda target. The government held firm; tranquility was restored; the economy began to move forward. Never again was the Republic threatened from the left.

The point is clear. A weak and impoverished France came close to a Communist takeover. But the psychological lift provided by the beginnings of a new US assistance program strengthened the government's resolve to hold its ground. (At annex is a view of what might have happened--a waspish picture of a "Soviet France.")

MARSHALL PLAN AID

In 1947, before Marshall Plan could be organized, the US pitched in with an interim-aid program. France got almost three-fourths of the assistance we furnished Europe under this program.

Marshall Plan aid arrived just in time to back up the recovery effort that was beginning to show progress under the Monnet Plan. Today government funds finance only about a fifth of investment in France, but in those days the figure was closer to half, and the government got its money in large part from the counterpart funds generated by American aid.

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The aid given to France during this critical Marshall Plan period was virtually all in grants (3.3 billion dollars out of a total figure of 3.6 billion).

American aid--along with American military expenditures in France--was crucial for the restoration of France's gold reserves. In 1952, for example, direct US aid plugged about two-thirds of France's balance-of-payment deficit. In addition, there was considerable indirect aid (credits extended to France by the European Payments Union which the US in effect financed).

In 1953, our aid and military expenditures far exceeded the French balance-of-payments deficit. France was able to acquire \$162 million in gold and foreign exchange as a result, and was on its way to becoming the large holder of gold that it is today.

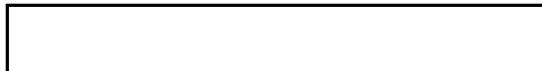
MILITARY EXPENDITURES--INDOCHINA

During the Marshall Plan period, the US was generous in helping defray the cost of the war in Indochina. On the basis of French budget figures and our own aid statistics, we estimate that we paid 25 percent of the cost. We considered this burden light by comparison with the French toll in lives, shedding as we did some blood of our own in Korea.

American help grew to such great proportions that the US was bearing 78 percent of the cost of the war by the time of the 1954 Geneva Conference. America gave France bombers, transports, tanks, guns, and warships. US Air Force ground crews serviced French planes in Indochina. American civilian pilots ferried French paratroopers and supplies within Indochina. In 1954, the US Air Force was assigned to fly French Union troops from France and North Africa to Indochina.

MILITARY EXPENDITURES--NATO

Quite apart from American aid disbursements, France has derived great national benefit from the NATO infrastructure program. Since it was adopted by NATO in 1951, the program



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has budgeted about 3 billion dollars on the construction of over 100 jet-capable airfields; a communications network of thousands of miles of cable, radio links, and land lines; and almost 5,000 miles of pipeline and mammoth fuel storage facilities.

The US has committed itself to pay over 1.3 billion dollars to help finance the NATO infrastructure in Europe--over and above the 2.3 billion it has spent for infrastructure required by the US forces stationed there. This means that the US over the past thirteen years has financed about 39 percent of the cost of the NATO infrastructure program, although we use only 19 to 20 percent of the facilities constructed.

About one-third of the NATO infrastructure program's expenditures have been in France. The current French share of the cost of the program is 12 percent.

It should be noted further that some of these expenditures were for port facilities used by French naval forces which subsequently withdrawn from commitment to NATO. Even after that withdrawal, France has continued to seek NATO financing for additional naval facilities.

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ANNEX

The Shape of a Bolshevik France

It is not difficult to envisage the conditions Frenchmen would have had to accept in a Bolshevik France. Premier Maurice Thorez would have had no qualms about eliminating all possible opposition leaders (on the Czech model), including foreign-service personnel. France would have quickly achieved the political stability on which the Fifth Republic prides itself. Without the bickering which distinguished the Fourth Republic, the country would have been able to address itself directly to the problems at hand--a relatively limited number of problems, since the major decisions would have been taken in Moscow, and since the means available to Paris would have been extremely restricted.

On the economic side, for example, the Soviets would probably have undertaken a more ruthless exploitation of a satellite France than that which actually occurred in Eastern Europe. The fear of outside objections would have been reduced to zero. Not only would the Soviets have had little to give France, but they would have been hungry for what few assets France did possess. France would have been incorporated into the bloc with a severely restricted economic role, its export industries limited perhaps to such activities as wine and perfume production. The market for such items in France itself would probably be extremely small, because the general standard of living would probably be little better than that of Poland.

French scientists would have had a much earlier opportunity to work on nuclear weapons, missiles and satellites, but hardly in a national capacity. France's direct knowledge of such activities would have been limited to the missile sites located on French soil.

France would also have been spared the bloody Indochina and Algerian campaigns. Premier Thorez would have shielded his compatriots from the painful dissolution of French ties with all former French Union territories. A simple decree would have opened the way for Moscow to supplant Paris, and the use of French as a lingua franca in Africa would be only a memory.

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OTHER ECONOMIC POINTS THE FRENCH MAY RAISE

US Investments in Europe

The French argument: The US is engaging in "economic colonization" by taking over European industries. French affiliates of US companies produce 80 percent of the auto tires in France, 70 percent of the sewing machines, 80 percent of the ball bearings.

Response: Investment is a two-way street. West Europeans have invested more (30 billion dollars) in the US than Americans have in Western Europe (25 billion dollars).

It is true that West Europeans go in more for portfolio holdings of American securities, whereas Americans are making direct investments--establishing or buying up branches, subsidiaries, and other affiliates. However, West European direct investments in the US are still sizeable. They came to \$4 billion dollars as of the end of 1963 (compared with 10 billion of American direct investments in Europe). Such European giants as Shell, Unilever, Olivetti, Nestle control or have sizeable interests in American affiliates.

International Monetary Reform

The French argument: We have got to get back to a gold standard or some close variant thereof, under which payments balances between major financial powers would be settled wholly or mainly in gold. We don't want to go on taking your dollars instead of gold. It is our generosity in taking your dollars that has enabled you to keep buying up European companies, since you could do so without loss of your gold reserves.

Response: Americans, along with Europeans, are giving a lot of thought to international monetary reform. But we have got to guard against the deflationary impact of a sharp decline in monetary reserves. Such a decline will occur if central banks start holding only gold (rather than gold and dollars) in their reserves. Jacques Rueff (close monetary adviser of De Gaulle) admits that going back fully to gold would require a general devaluation of currencies to counteract the deflationary impact. Opinion in this country, and I think in most of Europe, is opposed to an international monetary system that would require occasional devaluations to avoid deflation.

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